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FARM POLICY: THE 2002 FARM BILL DEBATE BEGINS

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Acreage Changes and Farm Program Support since the 1996 Farm Bill

The Federal Agricultural Improvement and Reform Act of 1996 (*FAIR*) is scheduled to expire in 2002, nearly three crop seasons away. However, policy deliberations already have begun in the form of a national commission, on-going debates in Congress, and initial discussions within farm and other interest groups.

This is an important phase of the policy process even though subsequent events may make these initial deliberations obsolete. This phase, which will last through at least the 2000 elections, seeks to establish the facts concerning the impact of *FAIR*, assesses the relevancy of historical guiding principles, and most importantly is a period of idea experimentation. Trial balloons will be floated: most will sink, but a few will float and find their way in some form into the legislation.

FAIR contained several important policy changes. Most prominently, it eliminated annual acreage set-aside and public storage programs. It gave farmers the freedom to plant or not plant their land to any crop except fruits and vegetables.

Farmers responded (see attached table 1). Between 1995, the last crop year before *FAIR*, and 1999, the current crop year; acres planted to the principal crops in the U.S. increased by 10 million acres or 3%. Principal crops include almost all crops except fruits and vegetables. Acreage shifted from grains to oilseeds, best illustrated by a 12 million acre increase in soybeans. Corn's share of feed grain acreage increased from 76% in 1995 to 80% in 1999. Wheat planted acreage declined by 6 million acres. Acres planted to sorghum, barley, oats, and cotton also declined.

A common complaint about *FAIR* is that a high marketing loan rate for soybeans has caused the increase in soybean acres. To illustrate, for 1998 and 1999 the soybean loan rate generated a 74% return above cash costs, far higher than the return generated by the loan rate for the other farm program crops (see attached table 2). While this evidence supports the complaint, further examination finds that the returns generated by the loan rates closely mirror the returns generated by the private market (price times yield minus cash costs). The correlation coefficient is 0.97. Thus, the market and government loan rates are sending similar resource allocation signals: plant more acres of beans (oilseeds). Hence, policy makers who want to lower the soybean loan rate need to lower all loan rates to maintain the appropriate relative signals.

Another common complaint about *FAIR* is that government support has declined. But, expenditures on farm income supports are averaging $8.8 billion per year under *FAIR*, compared with $6.4 billion per year under the 1991 farm bill.

The conclusions: (1) Congress (Society) appears unwilling to substantially cut expenditures on the farm safety net; and (2) the midwest, with its dependence on corn and soybeans, has been a clear regional winner. In part, the reluctance to cut spending reflects that federal budget surpluses currently exist compared with the budget deficits that existed when *FAIR* was passed. It also reflects the continuing importance of public goodwill for farmers, i.e., the idea of farm fundamentalism.

Other Policy Observations/Considerations

- The recent decision to increase payment limits reconfirmed that farm income support is not about poverty and small farmers. Never has been, probably never will be. Our policy remains to "talk about the plight of small farmers."
- To me, the recent 1999 elections point to a Democratic takeover of the U.S. House of Representatives. Democrats were elected mayors of 8 major cities, including Columbus, Ohio and Indianapolis, Indiana. A Democratic House will probably be less likely to push for major reduction in the level of farm spending.
- This is strictly a personal view: I see signs that the dominant farm organization, American Farm Bureau Federation, is moving away from its traditional midwest base of support. It is taking a more southern focus. This shift seemed most evident in its rhetoric during the 1999 farm policy debate. For the time being the policy implication is that Farm Bureau will be more vigilant in protecting and raising government support to farmers. However, a lesson from history is that a large organization usually becomes so unfocused that either it splits or alternatives spring up. Remember that the future of the midwest lies in exploiting its comparative advantage as a low cost producer. Thus, are we witnessing the precursor to a split in Farm Bureau or to the development of a new midwest-orientated farm organization?

Emerging Policy Questions for the 2002 Farm Bill

- **What will Society require from farmers to justify continued income transfers?** The only answer: increased environmental requirements. Expect lots of talk about filter strips and carbon sequestration. If it is smart, the farm community will embrace the greening of the farm bill by coming to the table with a green proposal, but clearly draw appropriate and fair lines.
- **Will environmental set aside of farmland increase?** Two chances to reinstate annual set asides have passed, and the odds decline with each passing year. In addition, livestock producers were important winners from *FAIR*. Their economic problems would be far worse without allowing crop prices to seek their own level. When combined with increasing specialization in livestock production, a new, powerful constituency exists against annual set-asides. However, environmental set aside of farmland, such as more Conservation Reserve acres, probably will be an acceptable way to remove farmland from production, thus raising prices.
- **Should public storage programs be reinstated**? Despite lots of talk from the farm community over the last two years, Congress has not reinstituted publicly subsidized storage programs. It appears that subsidized storage programs can not occur without the support of consumers. A major drought between now and 2002 could provide the catalyst for consumer support of public storage programs.
- **What about insurance?** Even Congress has limits to how many times it will fix something. Furthermore, Congress appears willing to recognize the current crop insurance program for what it is: farm income support payments that encourage production, especially in fringe areas. New policy initiatives are likely. The current front runner is an income savings account available for use in low-income years.
- **Should the limit on planting fruits and vegetables be removed?** Arguments in support include the on-going water problems in the west and the potential reduction in risk from crop diversification. But, does this mean that farm income payments should be shared with producers of fruits and vegetables?

Table. 1. Change in Planted Acres of Major Field Crops, U.S., 1995 - 1999

Crop	Change from 1995 to 1999		1999 Acres
	1000 acres	%	1000
Soybeans	11,710	18.7	74,205
Corn	6,132	8.6	77,611
Hay[1]	2,187	3.7	61,951
Canola	649	145.5	1,095
Rice	479	15.3	3,600
Sunflowers	128	3.7	3,606
Sorghum	-380	-4.0	9,049
Barley	-1,452	-21.7	5,237
Oats	-1,567	-25.2	4,658
Cotton	-2,372	-14.0	14,559
Wheat	-6,148	-8.9	62,853
Principal Crops[2]	9,831	3.1	328,120

[1] Harvested acres.

[2] Acres planted is used for corn, sorghum, oats, barley, winter wheat, rye, durum wheat, other spring wheat, rice, soybeans, peanuts, sunflower, cotton, dry edible beans, potatoes, sugarbeets, and canola. Harvested acres are used for hay, tobacco, and sugarcane. Includes double cropped acres and unharvested small grains planted as cover crops. Fall potatoes carried forward from the previous year for current year totals.

SOURCE: Original Computations from the report titled *Acreage*, National Agricultural Statistics Service, U.S. Department of Agriculture, various years

Table 2. Indicators of Profitability and of Government Support, Major Field Crops, U.S., 1998 – 1999 Crops

Crop	Per Acre Government Supported Gross Income Above Total Cash Costs[1]	Per Acre Private Market Gross Income Above Total Cash Costs[2]
	Percent of Cash Costs	
Soybeans	74%	65%
Corn	25%	26%
Sorghum	5%	-1%
Wheat	3%	4%
Oats	-7%	-11%
Cotton	-18%	-6%
Rice	-18%	-7%
Barley	-24%	-4%

[1] Calculation is: [(average U.S. yield times U.S. loan rate) minus (average U.S. total cash costs per acre)] divided by [average U.S. cash cost per acre]

[2] Calculation is: [(average U.S. yield times average U.S. price) minus (average U.S. total cash costs)] divided by [average U.S. cash cost per acre]

SOURCE: Original Computations

To illustrate the calculations consider corn for 1998

The data were: 134.4 bu./acre average U.S. yield, $1.95/bu. U.S. average price, $1.89 U.S. average loan rate, and $202 per acre U.S. average cash cost of production. The latter is the 1997 figure adjusted for the difference in yield between the national average yield and the yield reported in the cost of production data. Cost of production data are not yet available for 1998.

Per acre government supported gross income is: 134.4 times $1.89 = 254/acre.
Per acre private market return is: 134.4 times $1.95 = $262/acre.
Percent for government supported gross income is: ($254 - $202)/$202 = 26%.
Percent for private market return is: ($262 - $202)/$202 = 30%.